



**Summary of the 2010 – 2014 Corporate Plan
and 2010 Operating and Capital Budgets**

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TABLE OF CONTENTS

	<u>Page</u>
<u>EXECUTIVE SUMMARY</u>	1
1. <u>MANDATE</u>	4
2. <u>CORPORATE PROFILE</u>	
2.1 Background	4
2.2 VIA's Train Service Network	4
2.3 VIA's Rail Infrastructure	5
2.4 General Developments in Passenger Rail.....	5
2.4.1 Global Context	5
2.4.2 Canada.....	6
2.5 VIA's Management Plan	6
2.5.1 Vision and Mission	7
2.5.2 Guiding Principles	7
2.5.3 Goals	7
2.6 History of VIA's Financial Performance	8
3. <u>CURRENT YEAR (2009)</u>	
3.1 Operating Performance in 2009	8
3.2 2009 Business Environment	9
3.3 Capital Expenditures in 2009.....	9
4. <u>PLANNED SPENDING AND GOVERNMENT FUNDING</u>	
4.1 2010-2014 Business Outlook	9
4.2 Overview of Operating Budget Between 2010 and 2014.....	10
4.2.1 Revenue	10
4.2.2 Expenses	10
4.2.2.1 Contributions to Pension Plans	11
4.2.2.2 Fuel	11
4.3 Comparison of the 2009-2013 and 2010-2014 Corporate Plans	12
4.4 Capital Funding Between 2010 and 2014	13
4.5 Equipment.....	13
4.5.1 Rebuild of 54 F-40 Locomotives.....	13
4.5.2 Rebuild of 98 LRC Cars	13
4.5.3 HEP I(Head End Power) Modernization – Phase I.....	14
4.5.4 Renaissance Cars – Accessibility Improvements and Other Modifications	14
4.5.5 Rail Diesel Cars (RDCs)	15
4.5.6 P-42 Locomotives	15

4.6	Infrastructure	15
4.6.1	Montreal – Ottawa - Toronto.....	15
4.6.1.1	Ottawa - Toronto.....	16
4.6.1.2	Montreal - Toronto	16
4.6.1.3	Montreal - Ottawa.....	17
4.6.2	Montreal - Quebec City	17
4.6.3	Toronto - London (Guelph-North Main Line)	17
4.6.4	Toronto – London – Windsor via the South Main Line (Dundas and Chatham)	17
4.6.5	Realization of Benefits Derived from \$474.2 Million Infrastructure Investment	17
4.7	Other Capital Projects	18
4.7.1	Other Equipment Projects	18
4.7.2	Maintenance Projects	18
4.7.3	Other Infrastructure	18
4.7.4	Stations	19
4.7.5	Information Technology and Administrative Capital Projects	19
4.8	Project Reporting and Contingencies.....	19
5.	<u>UNFUNDED CAPITAL AND MAJOR MAINTENANCE (MOS) REQUIREMENTS</u>	
5.1	Ongoing Critical Capital Requirements.....	20
5.2	Modernization of the HEP I Fleet.....	20
6.	<u>ISSUES AND MAJOR RISKS</u>	
6.1	2010 – 2014 Operating Funding Gap	20
6.2	Passenger Revenues.....	21
6.3	Contributions to Pension Funds	21
6.4	Fuel Cost Fluctuations	21
6.5	Negotiations with CN	21
6.6	Compensation, Wages and Benefits.....	21
7.	<u>COST REDUCTIONS</u>	
7.1	Productivity and Purchasing Initiatives.....	22
8.	<u>SPECIFIC APPROVALS REQUESTED</u>	23
	<u>FINANCIAL PLAN</u>	24

EXECUTIVE SUMMARY

Background

VIA Rail Canada operates the nation's passenger rail services on behalf of the Government of Canada. The Corporation's objectives are to manage and to provide a safe, efficient, and reliable rail passenger service in Canada. VIA's mandate and funding are approved by the Treasury Board of Canada through VIA's annual Corporate Plan.

Operating Performance in 2009

VIA's total revenues amounted to \$264.9 million in 2009. Results for 2009 were affected in roughly equal part by a very competitive pricing environment that forced yields to historically low levels and lower passenger volumes due to the severe recession.

In response to the deteriorating travel market in 2009, the corporation exercised rigorous cost containment in order to mitigate the effects of the revenue shortfall. Expenses were \$526.1 million or \$41.5 million lower than the budget included in the 2009-2013 Corporate Plan. The savings are due to lower compensation and fuel expenses as well as lower passenger related costs due to reduced ridership.

Capital Expenditures in 2009

VIA's capital budget for 2009 was \$244.0 million, of which VIA spent \$116.8 million and is seeking to re-profile \$124.9 million from 2009 to 2010 and beyond. Of the \$116.8 million spent in 2009: \$57.4 million was spent on infrastructure investments; \$26.3 million was spent upgrading equipment; and \$33.1 million was invested in other projects including station upgrades and Information Technology projects.

Operating Budget Between 2010 and 2014

Revenues deteriorated significantly in 2009 and VIA is forecasting very moderate revenue recovery in 2010 and 2011. Revenue growth is expected to improve and grow as the economy begins to recover in 2012 and beyond and as VIA introduces new frequencies as a result of the capital program.

Expenses are forecasted to increase by 25.6% over the planning period. The major elements driving the increase in operating expenses include the costs associated with operating additional train frequencies, increases in track access fees and inflation.

Notwithstanding the forecasted revenue growth and initiatives that were implemented to reduce the deficit, VIA expects to incur an operating shortfall of \$75 million in 2010 and \$477.8 million between 2010 and 2014. Budget 2010 provided VIA with \$75 million of additional operating funding.

Capital Funding Between 2010 and 2014

In this Corporate Plan, two capital programs are described. The \$516 million medium-term capital program, approved by the government in June 2007 and the \$407 million stimulus funding (including \$20 million of major maintenance operating funding) approved as part of Budget 2009: Canada's Economic Action Plan.

Of the capital funding, VIA has allocated funding towards major equipment projects, including the rebuild of VIA's fleet of General Motors F-40 locomotives, the rebuild of the LRC (Light, Rapid, Comfortable) car fleet, reconfiguration of part of the HEP I (Head End Power) car fleet, and accessibility modifications on the Renaissance car fleet. The equipment rebuilds will extend their useful life an additional 15 to 20 years.

Further funding will be invested in major rail infrastructure in order to enhance safety, improve reliability, increase capacity and introduce new train frequencies on the Quebec City – Windsor corridor. These investments will address signalling issues, improve track quality, add passing tracks and modernize VIA's train stations. The benefits from these investments will allow VIA to introduce additional frequencies in the Corridor.

Funding of \$85.1 million has been allocated to other capital over the planning period. However, VIA's current approved reference levels do not provide for ongoing capital funding. VIA anticipates capital requirements beyond 2010 will amount to \$240 million, or \$60 million per year. Ongoing capital funding is critical in order to maintain VIA's asset base in the long term, ensure reliable, safe and sustainable operations, grow revenues and reduce costs.

The \$407 million (including \$20 million of major maintenance funding) provided through Canada's Economic Action Plan must be spent before the end of the program in March 2012. At the time of writing, VIA has made significant progress in implementing the investments funded through the Economic Action Plan and has committed all of the \$407 million provided through Budget 2009.

Issues and Risk

VIA has identified a number of issues and risks over the planning period. A brief description of these risks is provided below.

- **VIA's passenger revenues have deteriorated significantly** due to the 2008/2009 recession. In addition to the revenue shortfall, VIA is forecasting the need to make annual pension contributions of \$25 million between 2010 and 2014. These contributions will encumber VIA's operating results moving forward.
- **VIA's funding for ongoing critical capital requirements expires in 2010.** VIA projects a \$240 million deficit in on-going capital funding over the planning period, without ongoing capital funding VIA cannot address even minimal capital requirements including those for safety, health and environment in the long term.

- **Fuel prices continue to remain unpredictable.** During the first half of 2008, prices surged to \$147 USD a barrel, before declining to more moderate levels. VIA's projection of fuel costs in 2010 is \$53 million, significantly higher than the \$37.1 million paid in 2007.
- A significant number of VIA's **locomotive engineers are close to retirement.** To address the need for this critical manpower, VIA will be developing an in-house training program to create a pool of locomotive engineers.
- VIA continues to face **aggressive competition** from airlines, with respect to fares and service levels and the future outlook for travel demand is difficult to forecast in the present economic downturn.

Major Risk Quantification and Mitigation

Due to the 2008/2009 recession, VIA's passenger revenues were 18.9% lower than the 2009 budgets included in VIA's previous Corporate Plan. In 2010, passenger volumes are expected to grow by 2.8% although some of the growth will be offset by lower passenger yields. For every 1% reduction in passenger yields, revenue growth will be reduced by \$1.3 million. In addition, a 1% reduction in volume growth will also reduce VIA's revenue by \$2.5 million. VIA will mitigate the risk associated with the revenue forecast through cost containment, cost reduction initiatives and productivity improvements. For example, VIA has reduced its non-unionized workforce by 12%.

Diesel fuel, while not the largest cost element for VIA, is the most volatile. In the past, VIA has been protected from fuel price fluctuations through its hedging activities. In 2008, the cost of fuel reached record levels and has since decreased in conjunction with the worsening economy. The total cost of fuel will benefit from the non-hedged portion of VIA's fuel. For 2010, fuel costs are hedged at 75%, at an average hedged price of \$107 USD/bbl. For every \$5 variation in the price of West Texas Intermediate Crude Oil in 2010, VIA's operating cost could increase / decrease by \$0.5 million.

VIA recently concluded an agreement with CN that will result in major rail infrastructure improvements between Brockville and Toronto. Further, negotiations regarding other infrastructure investments are still ongoing. There is a risk that some of these negotiations may be delayed, that estimates to perform the work exceed allocated budgets or that the expected benefits do not crystallize. In order to mitigate these risks, the corporation will actively monitor project budgets and schedules, conduct on-site inspections in order to ensure that investments proceed as planned and effectively manage any available contingency funding.

1. MANDATE

VIA Rail Canada operates the nation's passenger rail services on behalf of the Government of Canada, providing intercity passenger services and maintaining regional and remote passenger rail transportation, as approved by Treasury Board through VIA's annual Corporate Plan. The Corporation's objectives are to manage and to provide a safe, efficient, and reliable passenger rail service in Canada. VIA is mandated to operate its network with the corresponding funding, through the annual approval of its Corporate Plan.

2. CORPORATE PROFILE

2.1 Background

VIA was created in 1977 as a subsidiary of Canadian National Railway (CN). VIA then became a Crown corporation in 1978, resulting in the consolidation of the passenger rail operations of CN and those of Canadian Pacific Railway (CP). VIA was incorporated under the *Canada Business Corporations Act* and does not have its own enabling legislation. It is a Schedule III, Part I Crown corporation, appropriation-dependent and not an Agent of Her Majesty.

With the creation of VIA, the rolling stock required to operate the passenger rail service was purchased from CN and CP. However, the rail infrastructure remained the property of CN and CP. VIA pays for access to the rail infrastructure.

2.2 VIA's Train Service Network

VIA operates Canada's national intercity passenger rail service across Canada from the Atlantic to the Pacific and from the Great Lakes to Hudson Bay. In 2009, VIA carried more than 4.2 million passengers annually.

The passenger rail service network comprises up to 497 trains per week that operate over approximately 12,500 kilometres of infrastructure. Of these trains, 429 operate in the Quebec City to Windsor Corridor, 18 are transcontinental trains (Toronto–Vancouver and Montreal–Halifax) and 50 are considered regional and remote trains.

- In Western Canada, VIA operates six trains per week between Toronto and Vancouver that include service to remote communities.
- In the Quebec City-Toronto corridor, VIA operates 281 intercity passenger trains per week. This segment of VIA's network is the most commercially viable and has the greatest potential for growth. In addition to these trains, VIA operates 148 intercity passenger trains per week in the Southwestern Ontario region.
- In the Maritimes, VIA operates 12 long distance intercity trains per week between Montreal and Halifax, serving local communities in Quebec, northern New Brunswick, and Nova Scotia.

- In rural and remote communities, VIA operates 50 trains per week for services designated by the Government of Canada as important for the provision of access to local communities that have no affordable, alternative transportation.

2.3 VIA's Rail Infrastructure

VIA has commercial Train Services Agreements (TSA) with the major freight railways that inform VIA's access to rail infrastructure. In February 2009, VIA signed a new ten-year TSA with CN.

The ownership of VIA's infrastructure is divided as follows:

VIA owned	2% of track miles / 7% of VIA's train-miles
Canadian National	79% of track miles / 81% of VIA's train-miles
Canadian Pacific	4% of track miles / 3% of VIA's train-miles
Hudson Bay Railway	8% of track miles / 3% of VIA's train-miles
Other shortline railways	7% of track miles / 6% of VIA's train-miles

Approximately 15% of the rail infrastructure over which VIA operates is owned by shortline railways. Unlike the major freight operators, these shortline railways are not in a position to invest adequate capital into their infrastructure to allow VIA to maintain passenger train speeds.

With respect to the servicing and maintenance of its rolling stock, VIA performs most of these activities in its maintenance centres located in Vancouver, Winnipeg, Toronto, and Montreal. In addition, servicing is performed in Halifax and at other linepoints across the country.

VIA owns most of its station network, although some stations are leased. In most cases, the day-to-day upkeep and long-term maintenance of these buildings are VIA's responsibility.

VIA's infrastructure also includes two telephone sales offices (Montreal and Moncton) and six commissary centres that provide food, beverages and provisions for the trains.

2.4 General Developments in Passenger Rail

2.4.1 Global Context

High speed rail corridors create additional infrastructure to relieve rail, road, and air congestion. For the purposes of this corporate plan, high speed rail is defined as rail that enables trains to travel 200 km/h or above. According to a study by the International Union of Railways, currently 10,739 kilometres of high speed rail track are operational worldwide and by 2024, a further 31,048 kilometres are expected to become operational.

Train service at 200 km/h or faster is currently available across most of Western Europe and the development a Trans-European high speed rail network is a stated goal of the European Union. Most cross-border rail lines in Europe already receive EU funding.

In Asia, Japan led the development of high speed rail and Shinkansen trains, or bullet trains, now travel at speeds of up to 300 km/h. South Korea and Taiwan have built high speed routes, while China has launched the world's most ambitious high-speed train network development program, to date. China has budgeted 600 billion yuan (\$95 billion) in order to improve and expand high speed rail infrastructure and is aiming to produce around 1,000 high-speed trainsets by 2014. If attained, this goal would provide China with more high speed trains than the rest of the world's current, combined fleet.

In April 2009, the Obama administration announced a strategic plan to create high speed intercity rail lines throughout the US as part of the US Recovery and Reinvestment Act. This plan identifies a \$13 billion investment, to jump-start high speed rail development in ten corridors. Of these corridors, three could potentially connect with Canadian cities (Vancouver, Toronto and Montreal). On January 28, 2010 President Obama announced \$8 billion of new funding for high speed rail projects in 13 major corridors. Further, the President indicated that significantly more funding would follow.

2.4.2 Canada

In recent years there has been renewed interest in the potential for high speed rail in Canada. Numerous studies have been conducted into the feasibility of high speed rail in the Quebec City-Windsor corridor. In early 2008 the premiers of Ontario and Quebec, together with the federal government, announced that they would update these studies. Due to the considerable costs associated with establishing a high speed passenger rail network, the feasibility study will explore options to share costs associated with the construction, maintenance and operation of a high speed rail network. The results are expected in 2010. Currently, no commercially operated high speed rail track exists in Canada.

2.5 VIA's Management Plan

VIA's management plan articulates the corporation's Vision and Mission, as well as guiding principles. The guiding principles provide a framework for the behaviour of the organization over the next few years and ensure that VIA's mission and corporate objectives are understood by all of its 3,000 employees. Six key performance indicators, linked are central to this plan.

2.5.1 Vision and Mission

VISION

We will offer the best travel experience in Canada.

MISSION

We work together to exceed customer expectations every time.

2.5.2 Guiding Principles

These guiding principles serve as a basis of reasoning and action and articulate a code of conduct for the organization.

**I focus on the customer.
I take action and am accountable.
I am flexible and contribute to change.
I make the difference.**

2.5.3 Goals

VIA's management plan supports the organization's strategic direction, through six specific goals:

**Customer Promise
Growth
Efficiency
Environment
People
Safety and Security**

These goals confirm the corporation's commitment to a sustainable operation and reinforce VIA's accountability to stakeholders for improving rail service and meeting performance objectives. These goals are supported by specific strategies designed to achieve measurable results and are monitored through key performance indicators associated with each goal. A summary of these measurements is included in Table 4 of the attached Financial Tables. Progress against these indicators is published monthly on VIA's Intranet. In addition, town halls are held as a forum for discussion between senior management and employees to discuss VIA's strategies and performance. This ensures that every employee is aware of the key measurements and how everyone contributes to VIA's success.

2.6 History of VIA's Financial Performance

A brief summary of VIA's financial performance and highlights of operational efficiencies achieved since 1990 are provided below:

- VIA's operating funding was reduced by 44.8% between 1990 and 2009, from \$410 million to \$226.3 million in 2009. In real terms the funding reduction was greater due to the effect of inflation.
- Operating expenses have increased marginally, from \$493.3 million in 1990, to \$526.1 million in 2009, an increase of 7%. However, inflation was approximately 60% over the same 19-year period.
- Total revenues have increased by 86% from \$142.8 million in 1990 to \$264.9 million in 2009.
- Cost recovery has increased by 75%, from 28.9 cents to 50.7 cents of revenue earned per dollar of cash operating expenses (cost recovery peaked at 64.5 cents of revenue earned per dollar of cash operating expense in 2002). VIA's calculation of its cost recovery ratio does not include restructuring expenses or depreciation. Cost recovery is an indicator of operational efficiency.
- Employee headcount was reduced by one-third from approximately 4,500 in 1990 to approximately 3,000 in 2009.

In summary, since 1990, VIA met reduced funding targets by exercising rigorous control over operating costs, while maximizing revenue by aggressively increasing fares and passenger yields and focusing on the customers' needs.

3. CURRENT YEAR (2009)

3.1 Operating Performance in 2009

Canada entered an acute recession in 2008 and, as a result, VIA has experienced a substantial drop in ridership and revenue during 2009. In 2009, total revenues were \$264.9 million, \$34.3 million less than 2008. Similarly, in 2009, VIA's passenger revenues were \$250.3 million, or \$58.5 million lower than budget. This represents a shortfall of 18.9% and a decline, compared with 2008 revenues, of \$32.6 million or 11.5%. Results for 2009 were affected in roughly equal part by a very competitive pricing environment throughout the year that forced yields to historically low levels, and the economic downturn which began to affect most carriers' volumes in September 2008. Most of the ridership gains achieved over the previous two years have been eroded, and short-term prospects for recovery in either domestic or international travel demand are poor.

During 2009, the corporation exercised rigorous cost containment to respond to the worsening travel market and to mitigate the effects of the revenue gap. Expenses were \$526.1 million, better than the 2009-2013 Corporate Plan's budget by \$41.5 million or 7.3%. The compensation forecast was better than budget and fuel costs were lower than budget due to lower consumption and lower prices on the non-hedged portion. On-board product costs are also lower, primarily due to reduced ridership.

3.2 2009 Business Environment

Buoyed by stimulus packages throughout the world and infrastructure spending initiatives spanning the next two years, economic growth began to recover by mid-2009. Both Canadian and U.S. economies recorded positive 3rd-quarter increases in GDP, although regional employment growth remains weak in both countries. At its worst, consumer and business confidence in Canada dropped precipitously to its lowest level since the 1981-1982 recession before recovering in September 2009 and then retreating in the fall as unemployment remained stubbornly high.

The Canadian business confidence index began its steep decline earlier, following the collapse of the US housing market, falling from 106.7 in the second quarter of 2007 to 68.9 by the fourth quarter of 2008. Expectations of improving business profitability had driven the index back to 97.8 by the third quarter of 2009. Record over-capacity and weak consumer demand are constraining investment, persuading businesses to curtail spending on travel and substitute more tele-, web- and video-conferencing.

After four consecutive quarters of decline, Statistics Canada reported that tourism spending in Canada increased 0.3% in real terms in the third quarter of 2009 as expenditures by Canadians advanced while those of international visitors fell. The report notes this increase "...end[ed] the longest downturn since the early 1990's."

Spending by international visitors fell 2.4% in real terms in the third quarter, the seventh consecutive decline, bringing international tourism spending in Canada to a level 15.4% below where it stood in the fourth quarter of 2007. Canadian spending on tourism in Canada increased 0.9% in real terms, following four quarters of decline, with expenditures higher across all categories.

3.3 Capital Expenditures in 2009

VIA capital expenditures were \$116.8 million in 2009. The status of spending for the major capital projects will be discussed in Section 4 below, in the context of the five-year planning horizon.

4. PLANNED SPENDING AND GOVERNMENT FUNDING

4.1 2010-2014 Business Outlook*

Most forecasters continue to expect a prolonged recovery from the 2008-2009 recession that will most probably extend into 2011, and potentially to 2012. Canada's GDP (Gross Domestic Product) is expected to contract by 2.5% in 2009, but to grow by 2.8% in 2010. The 2009 outlook for the U.S. is comparable, with a forecast reduction in that country's GDP of 2.5% in 2009, and growth of 2.8% in 2010.

The most significant drivers causing weakness in growth forecasts is a volatile outlook for the trade and manufacturing sectors, affected by a strengthening of the Canadian dollar. The unemployment rate is expected to remain relatively high in 2010 and is

accompanied by a forecast drop in consumer demand. Government and household spending should contribute the most to Canadian economic growth in 2010. Stimulus spending is expected to peak this year, while low interest rates and rising consumer confidence should encourage household spending.

The national travel market outlook calls for a more pronounced downturn, even though “pent-up demand” is expected to drive domestic recovery by 2011, initially by favoring outbound trips. Canadian domestic trips are expected to improve by 2.4% in 2010 after having decreased by 3.5% in 2009. Inbound travel growth to Canada is expected to be weak in 2010 with only moderate growth of 0.4%. Trips originating from the US fell by 7.9% in 2009. The weak travel market and over capacity will result in fierce competition between modes and travel choices. The dominant travel mode, the private car, is experiencing a new trend, as consumers begin to replace large vehicles with small, more fuel-efficient cars and hybrids.

**All forecasts based on Winter 2010 Canadian Economic Outlook*

4.2 Overview of Operating Budget Between 2010 and 2014

4.2.1 Revenue

Over the plan period, VIA is forecasting a modest recovery for both ridership and revenues:

- Corridor revenues are forecast to increase 24.3% over the plan period, based on ridership growth of 10.2%. Added to this base growth is incremental revenue to be derived from the introduction of additional frequencies, for a total revenue increase for the period 2012 to 2014 of \$129.0 million, or 7.8% of the total planned passenger revenue during the plan period.
- VIA has adopted a more conservative five-year recovery profile (2010-2014) for long-haul ridership. Non-Corridor revenues are forecast to increase 22.2% over the plan period, based on ridership growth of 15.3%.

4.2.2 Expenses

VIA's operating expenses over the plan period will be affected by the following elements:

- The requirement to make contributions to fund a \$125 million pension fund deficit.
- Fuel prices are a significant element of VIA's expenses and they are difficult to predict, given the volatility of the price of fuel over the past several years.
- The charges under the Train Services Agreement (TSA) represent approximately 11% of VIA's total operating expenses (CN and short line railways).

- The introduction of additional frequencies, which will increase operating costs but these will be offset by additional revenues.

4.2.2.1 Contributions to Pension Plans

Between 1997 and 2004, VIA benefited from a mandatory contribution holiday with respect to its pension plans, as the Income Tax Act prohibits employers from making contributions when a plan is in a significant surplus position.

Effective 2005, while the unionized pension plan had an actuarial surplus on a going-concern basis, it registered a deficit on a solvency basis, a stricter measure of pension fund status. Therefore, since 2005, VIA has made current service contributions to its unionized pension plan as follows:

2005	\$5.0 million
2006	\$13.5 million
2007	\$12.2 million
2008	\$3.7 million

In 2009, VIA contributed \$14 million for current service to its pension plans.

Due to the poor investment results in 2008, increased liability valuations (due to the low interest rate environment) VIA forecasts that current and past service contributions to the unionized and management pension fund will be required throughout the planning period. Although, VIA has made changes to pension plan practices in order to reduce these payments, current and past contributions to the pension plans of \$125 million are forecasted to be required between 2010 and 2014.

It is important to note that VIA's operating funding was established on the assumption that pension contributions would not be required. The combined \$25 million in annual current and past service contributions will continue to encumber VIA's operating budget over the planning period.

4.2.2.2 Fuel

Global fuel prices have continued to escalate over the past several years, and spiked significantly in 2007 and during the first quarter of 2008. VIA's hedging activities add some certainty to future prices and have effectively delayed the impact of rising fuel prices in the past, saving \$34.0 million between 2004 and 2008. In 2008 alone, VIA realized benefits of \$10.4 million by hedging fuel and currency on fuel. VIA's 2009 forecast for fuel cost is \$54.0 million, \$8.2 million better than previous plan's budget.

In addition to hedging, VIA also continuously strives to reduce the volume of its fuel consumption. New technology that will be installed on the fleet of F-40 locomotives during the rebuild program, the use of dynamic braking, and the layover shutdown of the locomotives will have a positive effect on fuel consumption. In addition, VIA has reduced the number of locomotives that operate on the *Canadian* as well as the Montreal-Halifax and Montreal-Gaspé trains.

4.3 Comparison of the 2009-2013 and 2010-2014 Corporate Plans

In the 2009-2013 Corporate Plan, VIA outlined an operating shortfall of \$144 million. In this Corporate Plan, the shortfall has increased to \$402.8 million.

As illustrated in the following table the incremental funding gap compared to VIA's last approved corporate plan is due to: (i) significant revenue attrition brought on by the 2009/2010 recession and (ii) the requirement to make past and current service pension contributions. The following table outlines a comparison with the 2009-2013 Corporate Plan. In particular it outlines the incremental funding shortfall from the 2009-2013 to 2010-2014 Corporate Plans:

Shortfall from Government reference levels (in \$ millions)	2009-2013 Corporate Plan	2010-2014 Corporate Plan	Incremental Shortfall 2009-2013 to 2010-2014 Corporate Plans
Passenger revenue shortfall	n/a	321.0	321.0
Pension contributions	70.0	125.0	55.0
Net impact of the delay in implementation of capital investments, offset by productivity initiatives	74.0	31.8	(42.2)
Budget 2010 funding	n/a	(75.0)	(75.0)
Total shortfall	144.0	402.8	258.8

As discussed above, VIA suffered a significant shortfall in revenue in 2009, due to the financial crisis. The revenue shortfall has a ripple effect throughout the plan period and will result in a revenue gap of \$321.0 million over the plan period when compared to the 2009-2013 Corporate Plan.

Although VIA was able to reduce the amount of pension contributions required over the planning period by making changes to pension plan benefits, current service and past service contributions have increased by \$55 million since the 2009-2013 Corporate Plan was approved.

VIA has incurred some delays in the implementation of the capital investment program. The net impact of these delays includes revenues to be derived later during the plan period, coupled with lower passenger-related costs offset by productivity initiatives to reduce costs, resulting in a net improvement of \$42.2 million when comparing the two plans.

4.4 Capital Funding Between 2010 and 2014

Budget 2007 provided VIA with \$516 million of capital funding, which is referred to as the medium term capital program in this corporate plan. In Budget 2009, the government announced a further \$407 million of funding for VIA, which consisted of \$387 million in new capital funding and \$20 million in major maintenance or MOS operating funding. When referring to both capital programs as a whole, they will be referred to as the \$903 million capital program (this excludes the \$20 million included in operating funds in the Economic Action Plan).

With respect to the \$516 million capital program, VIA will seek to reprofile funds over the 2010-2014 planning horizon (2010/11 to 2014/15 government fiscal years) to correspond to forecast capital outflows that are changing as a result of delays in some projects. VIA forecasts to spend all of the budgeted \$125 million provided through the EAP in 2009/10. Further, the corporation is planning to accelerate EAP spending and will seek approval to move \$19 million of EAP funding allocated to 2011/2012 forward to 2010/2011 as part of the 2010/2011 Annual Reference Level Update.

4.5 Equipment

In the \$903 million capital program, \$288.5 million is allocated towards major equipment projects, of which \$220.9 million was provided in the \$516 million capital program and \$82 million was provided in the \$407 million EAP. Further detail on each major equipment project is provided below.

4.5.1 Rebuild of 54 F-40 Locomotives

In the \$516 million capital investment program, funding was allocated to rebuild the fleet of 54 F-40 locomotives. In addition to rebuilding the engine and auxiliary systems, environmental enhancements are also being installed in the locomotives. These modifications will result in fuel savings and reduce greenhouse gas emissions (GHG's). In particular, VIA estimates that the more efficient locomotives will reduce fuel consumption by five million litres per year. Assuming an average market value of approximately \$0.90 per litre, the fuel savings would result in savings of \$4.5 million per year. Further, the installation of the auxiliary generator, rebuilt engine and increased horsepower will allow VIA to reduce the locomotive-to-car ratio. The increased reliability will contribute to VIA's growth.

The first rebuilt locomotive was delivered in April 2009, with the last locomotive scheduled to be delivered by the end of 2012. Eight locomotives were delivered in 2009.

4.5.2 Rebuild of 98 LRC Cars

The LRC cars are VIA's primary car fleet for the Quebec City – Windsor corridor. This fleet generates approximately 50% of VIA's total passenger revenues.

The most significant benefit of rebuilding these cars is the extension of their useful life by 15 to 20 years. In addition, VIA will benefit from both regular maintenance and major

(overhaul) maintenance savings. The enhanced passenger comfort and increased reliability will contribute to VIA's growth. Environmental enhancements will be introduced, such as the installation of LED and compact fluorescent lighting, a light dimming system, and more efficient and sensitive HVAC (heating, ventilation, air conditioning) controls.

The work was awarded to Industrial Rail Services Inc. (IRSI) from Moncton, New Brunswick in April 2009.

4.5.3 HEP I (Head End Power) Modernization – Phase I

VIA's active HEP I car fleet consists of 173 cars, of which 87 will benefit from investments made as part of the \$903 million capital program (these 87 cars comprise practically the entire car fleet allocated to the *Canadian*). In particular, the following investments will be made:

1. An overhaul of the mechanical systems of 75 HEP I cars. The mechanical system overhaul will be completed internally.
2. The redecorating of 45 of the above 75 cars with new carpets, upholstery and wall coverings and an in-kind upgrade of the remaining 30 cars. VIA will complete this work internally.
3. The redesign and rebuild of eight Chateau sleeping cars and four Park cars. The funding for the redesign and rebuild was provided in Budget 2009 and Budget 2007. A contract to redesign and rebuild eight Chateau sleeping cars and four Park cars was awarded to Avalon Rail Inc. of Milwaukee, Wisconsin on October 30, 2009.

4.5.4 Renaissance Cars – Accessibility Improvements and Other Modifications

In the \$516 million capital program, an amount of \$8 million is allocated to perform accessibility modifications on the Renaissance equipment.

A brief summary of the modifications designed in accordance with the Canadian Transportation Agency's Code of Practice for Passenger Rail Car Accessibility is outlined below:

- On the transcontinental train operating between Montreal and Halifax (the *Ocean*), the accessible bedroom in the service car will be replaced with a larger accessible suite in a sleeping car. In total, three sleeping cars will be modified so that each of the three trainsets assigned to the *Ocean* will have this accessible bedroom.
- On each of the Renaissance Corridor trains, as well as on each of the *Ocean* trainsets, one coach car (nine cars) will have an accessible washroom.

- In the coaches (38 cars), at least one pair of double seats will be lowered to the floor level and will provide sufficient space for those traveling with service animals.
- Also in the coaches (38 cars), at least two additional moveable aisle armrests on the double-seat side will be installed. The moveable aisle armrests allow for a better ease of entry into the seat for mobility impaired individuals.

4.5.5 Rail Diesel Cars (RDCs)

VIA has six Rail Diesel Cars (RDCs) that are assigned to the Victoria-Courtenay and Sudbury-White River services. The cars are approaching 50 years of age. Amounts have been allocated in the \$407 million of EAP funding to complete a rebuild of the cars, which will extend their useful life by 15 to 20 years.

4.5.6 P-42 Locomotives

Within the \$407 million EAP funding, money was allocated for major maintenance (MOS), part of which will be invested in VIA's HEP I car fleet, as described in Sections 4.5.3 above and 5.2 below. VIA's fleet of 21 P-42 locomotives have now been in service eight years and have operated over 1 million miles and are in need of a major overhaul. VIA is performing an overhaul of the P-42 locomotive in-house. This overhaul will result in the replacement, overhaul and the repair of many major components of the locomotive. This overhaul will improve the reliability of these locomotives and prevent deterioration of their systems.

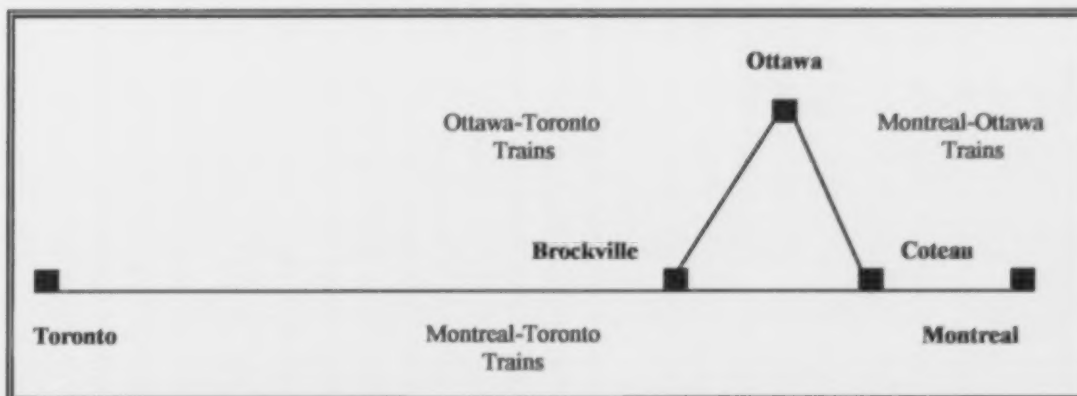
4.6 Infrastructure

In the combined \$903 million capital plan, \$474.2 million in infrastructure investments was allocated to enhance safety, improve reliability and increase capacity in the Quebec City-Windsor corridor. The investments will result in net revenue growth for VIA.

4.6.1 Montreal - Ottawa - Toronto

VIA believes that its long-term sustainability rests with improving and growing passenger rail service in the Montreal – Toronto – Ottawa triangle. The figure below provides a conceptual outline of VIA's Montreal – Ottawa – Toronto operating triangle with key rail junction points.

VIA's Montreal-Ottawa –Toronto triangle



Brockville - Toronto

In October 2009, VIA concluded an agreement with CN to add long sections of triple track between Brockville and Toronto. The additional track will eliminate bottlenecks and reduce delay-causing conflicts between VIA trains and freight trains. In addition, VIA plans to invest in station facilities over that track segment.

Once completed these investments will reduce effective trip times and allow for the implementation of additional frequencies in the Montreal – Ottawa – Toronto triangle.

4.6.1.1 Ottawa - Toronto

VIA will install and upgrade Centralized Traffic Control systems, fencing and additional sidings on the infrastructure between Ottawa and Brockville. Some delays to this project have been incurred related to the delay in reaching an agreement with CN for the purchase of the 13 miles between Federal Junction and Richmond on the Smiths Falls Subdivision. VIA recently concluded an agreement with CN to purchase the rail infrastructure.

This project will result in the elimination of non-signalized territory on the entire length of the CP Brockville and CN-VIA Smiths Falls Subdivisions, as well as improved operations, at higher speeds, through the town of Smiths Falls, over the CP main line.

As a result of these infrastructure investments between Ottawa and Toronto, VIA will reduce trip times and add additional round trips on this service.

4.6.1.2 Montreal – Toronto

VIA has concluded an agreement with CN regarding investments in rail infrastructure between Brockville and Toronto. The infrastructure improvements will enable improvements in trip times.

4.6.1.3 Montreal – Ottawa

Funding has been allocated to perform infrastructure improvements on the VIA owned track. In 2009, work to install a passing track near Carlsbad Spring and upgrade the jointed rail and Centralized Traffic Control (CTC) systems between Coteau and Ottawa was completed. These investments will result in trip time improvements.

4.6.2 Montreal – Quebec City

VIA has reduced trip times between Montreal and Quebec City, beginning April 2010. For example, the trip time for train 21 between Montreal and Quebec City will be reduced by 26 minutes and its arrival time will be moved-up from 9:17 to 8:32 in order to better meet the needs of business travellers.

4.6.3 Toronto – London (Guelph-North Main Line)

Funding has been allocated to improve the infrastructure on CN's North Main Line in southwestern Ontario (between Toronto and London via Kitchener).

The Guelph Subdivision is non-signaled territory. This investment will eliminate all non-signaled territory improving safety on the North Main Line.

With the installation of the signaling system, VIA would still be in a position to introduce an additional round trip.

4.6.4 Toronto-London -Windsor via the South Main Line (Dundas and Chatham)

Further, investments in the Chatham subdivision will result in the installation of a Centralized Traffic Control (CTC) system which will eliminate non-signaled territory, upgrade all automatic warning device systems for compatibility with CTC, replace bolted rail with continuous welded rail; and perform roadbed and track repairs.

The investments will allow for schedule and trip time improvements in order to better fit customers' needs. VIA is also proceeding with the construction of a new station in Windsor.

4.6.5 Realization of Benefits Derived from Infrastructure Investment

The investment in rail infrastructure will resolve issues fundamental to delivering useful and dependable service. By eliminating pinch points and adding stretches of third main line track, conflicts between freight and passenger trains will be reduced and the increased capacity will benefit VIA in three different ways: better schedules, less delays and additional frequencies.

The three main drivers that attract passengers to a transportation mode are trip times, convenience and price. The faster travel time and improved on-time performance, brought about by the infrastructure investments, will enable VIA to improve its

competitiveness with respect to two of these drivers. Experience and market research confirm that on-time performance is a key determinant of customer satisfaction, which in turn builds customer loyalty and retains ridership. Poor reliability in this area in recent years has undoubtedly had a negative impact on passenger revenues and VIA's ability to grow revenues.

Another benefit of the additional capacity is the ability to add new frequencies. Combined with faster trip times, these additional trains will allow VIA to capture market share by improving competitiveness with other modes. It will allow VIA to offer more "express" services. More express trains will also permit a better differentiation between business and economy classes and give more pricing flexibility to VIA, as it will be possible to have a more targeted approach in terms of market penetration.

4.7 Other Capital Programs

VIA will spend \$85.1 million on other capital programs over the planning period.

It is important to note that VIA's funding for other capital programs expires in 2011 and beyond. On-going capital funding is crucial in order to ensure the commercial viability of a capital intensive business such as a passenger railway. Without on-going capital funding, VIA will not be in a position to address critical health, safety and environment issues as well as other critical investments in equipment, infrastructure, stations, tooling, maintenance systems, facilities, and information technology in the long term.

4.7.1 Other Equipment Projects

The more significant projects in this category include modifications on the Renaissance cars, and an improvement to the Renaissance ventilation system; waste management system enhancements; improvements to the Panorama cars; and a modification to address snow ingress on P-42 locomotives. Most of these projects will be completed in 2010.

4.7.2 Maintenance Projects

The more significant projects in this category include an upgrade to the potable water management program, the purchase of electronic wheel gauges, extension of materials store at the Montreal Maintenance Centre, and upgrades to rail yard track.

In 2010, VIA plans to upgrade the wheel truing machine at the Montreal Maintenance Centre, repair the roof at the servicing area, and improve the water reservoirs and water distribution network.

4.7.3 Other Infrastructure

Funding in this category was used to purchase the Ottawa Terminal Rail Assets, representing four miles of infrastructure. This track was purchased to ensure VIA's operations in and out of Ottawa Station. Investments were also made in tie renewal and

surfacing on the Alexandria and Beachburg Subdivisions and bridge restoration is budgeted in 2010.

4.7.4 Stations

The vast majority of VIA's stations across the network are beginning to show their age, given that the construction of some of them dates back to the beginning of the 20th century. Furthermore, essential investments are required to preserve the integrity of structures, stations infrastructure and systems, such as heating systems, roof replacements, platform reconstruction, parking facilities, and other similar projects.

Over the planning period, VIA has allocated funding towards improvements in stations. There are approximately 140 station projects planned or underway across the country.

Toronto Union Station

The projects to be funded at Union Station include the relocation, enlargement and improvement of the VIA Panorama Lounge, the restoration of the VIA concourses, including the upgrade of the washrooms, the relocation of the commissary store, new freight elevators that will allow continued service to the platform level, as well as new freight elevators to replace the current elevators in the station that are needed for oversized baggage.

4.7.5 Information Technology and Administrative Capital Projects

In 2009, VIA invested in upgrades to its information technology network. These are significant investments and include infrastructure upgrades to support new applications that require more flexibility and more capacity. In addition, several other information technology projects are under consideration, if implemented these systems would improve revenue management. The systems include an upgrade to the VIANet system, the introduction of flexible pricing capability in the reservation system, and on-train service integration (e-ticketing).

4.8 Project Reporting and Contingencies

VIA has dedicated project management personnel who are assigned to develop the scope, manage the tendering process, and award contracts. In addition, cost control, monitoring, and forecasting are performed. Technical and contractual management is performed by VIA personnel both on-site and as support from the Project Management function. Approximately 4% of project costs are dedicated for project management.

Project managers report monthly on the project progress, performance against budget, areas of concern, and mitigation activities. The Board of Directors and Transport Canada are provided with regular updates. Audits will be reported on, as required.

5. UNFUNDED CAPITAL AND MAJOR MAINTENANCE (MOS) REQUIREMENTS

This section addresses critical capital funding that will be required in the short term to ensure the sustainability of the operation. VIA is not seeking approval for all of the funding requirements outlined in this section in this corporate plan, but is providing this information for the purposes of planning required capital funding for the future.

5.1 Ongoing Critical Capital Requirements

Existing funding for ongoing capital programs will be fully spent by 2011, resulting in no funding for these capital requirements in 2011 and beyond.

5.2 Modernization of the HEP I Fleet

The HEP I fleet consists of 173 active cars used on the western transcontinental, regional, and remote services of which approximately 100 cars are assigned to the *Canadian*. These cars were built in the 1950s, were rebuilt in 1989 and 1992 and now show their age. Given the premium fares charged for travel in these cars and competition for tourist dollars, there is a need to reconfigure these cars so in order to make them more competitive with other travel products. VIA has budgeted funding to reconfigure four Park cars and eight Chateau sleeping cars. VIA expects delivery of the first refurbished car in March 2011.

6. ISSUES AND MAJOR RISKS

The following sections outline issues and risks that the Corporation faces during the planning horizon. The quantification of risks and related mitigating measures are also discussed in the following sections.

6.1 2010-2014 Operating Funding Gap

VIA will incur an operating funding gap throughout the plan period of \$402.8 million.

To reduce the operating deficit, VIA began implementing cost containment initiatives in 2010 that will have an ongoing effect during the planning horizon. These initiatives include: staff reductions; the streamlining of administrative processes, both as a result of technology investments and realignment of staff; on-train, station and maintenance productivity measures; and the active renegotiation of contracts with suppliers. These initiatives will yield savings of \$8 million in 2010 and \$5 million annually in 2011 and beyond.

Although VIA received additional operating funding in Budget 2010, the operating shortfalls in 2011 and beyond remain unfunded.

6.2 Passenger Revenues

In the 2010-2014 Corporate Plan, VIA forecasts a passenger revenue increase of 57.6% over the plan period.

VIA forecasts that recovery from the economic slowdown will be slow and full recovery is expected to take three and a half years.

As more aggressive revenue management strategies are implemented, **passenger yields** (cents per passenger-mile) are expected to increase in 2010. Yield increases are forecast to generate close to \$40.0 million in revenues between 2011 and 2014.

6.3 Contributions to Pension Plans

The calculation of pension plan solvency is based on current market conditions and interest rates. Pension plan deficits are particularly sensitive to changes in interest rates, given the long discounting period of liabilities which stretch out far into the future. The above estimates of payments required to fund the solvency deficit do not take into account proposals to change to federally regulated pensions announced by the Government of Canada on October 27, 2009. VIA will continue to monitor the performance of its pension plan assets and obligations annually as well as any regulatory changes that impact the pension funds. An actuarial valuation of the plan will be completed in spring 2010. The estimates of the current and past service deficits will be revised to reflect the results of the valuation.

6.4 Fuel Cost Fluctuations

The cost of fuel is an important element of VIA's cost structure and could vary significantly from VIA's estimate due to the uncertainty and volatility of fuel prices. VIA's hedging activities add substantial certainty to future fuel costs and have very effectively delayed the impact of rising fuel prices in the past.

6.5 Negotiations with CN

CN owns 79% of the infrastructure over which VIA operates. Therefore, significant portions of the infrastructure investment are contingent on successful negotiations regarding project scope and cost with CN. As discussed in previous sections, VIA has concluded an agreement with CN that enables VIA to proceed with a large part of the planned infrastructure investments between Brockville and Toronto.

6.6 Compensation, Wages and Benefits

A significant number of VIA's locomotive engineers are close to retirement. Replacing these engineers will result in considerable training costs under the terms of the CN Transfer Agreement that will expire in approximately two years. At that time, the pool of locomotive engineers from CN will no longer be available to VIA. To address the need

for this critical manpower, VIA has begun an in-house training program to develop its own pool of locomotive engineers.

7. COST REDUCTIONS

As noted in previous sections, VIA expects to incur an operating funding deficit of \$402.8 million over the planning period. Funding was provided in Budget 2010 to offset VIA's operating shortfall in 2010. In the event that new funding is not provided in 2011, VIA will proceed to implement cost reduction proposals as outlined in this section. Although the actual scope of the cost reductions will depend on the amount of any new operating funding provided, VIA would consider the following to address operating deficits in 2011 and beyond:

1. Additional productivity and purchasing initiatives.
2. Train frequency reductions and eliminations.
3. Related overhead reductions.

7.1 Productivity and Purchasing Initiatives

In order to reduce costs and overhead expenses over the planning period, VIA has recently reduced its non-unionized and management workforce. Although the reduction will yield ongoing savings, it is important to note that these initiatives are in-part offset by VIA's declining operating funding over the planning period from \$282.0 million in 2010 (including funding provided in Budget 2010) to \$166.4 million in 2014.

VIA judges that the cost containment and productivity measures outlined in this Corporate Plan reflect the intent of the measures to contain the administrative costs of Government outlined in Chapter 4, Plan to Return to Budget Balance of Budget 2010.

In addition to staffing adjustments, VIA will review and renegotiate purchasing contracts with suppliers, optimize train car utilization through the introduction of fixed train consists which will reduce fuel and maintenance costs and other operating expenses and adjust service levels in certain areas.

VIA anticipates that the lower non-unionized headcount and operating efficiencies outlined above will yield at least \$8 million in annual savings.

In order to more aggressively grow revenues and reduce the operating gap, VIA will invest in processes to optimize pricing and seat allocation strategies which will stimulate demand. Further, VIA will review and adjust conditions of seat sales and invest in additional advertising to stimulate volume and increase presence in the marketplace.

8. SPECIFIC APPROVALS REQUESTED

In conformity with the Financial Administration Act the corporation is seeking:

1. Approval of the 2010–2014 Corporate Plan, including the operating and capital funding requirements as summarized in the key financial tables (Tables 1-3).
2. Approval of the 2010 Capital and Operating Budgets.

FINANCIAL PLAN

TABLE 1

VIA RAIL CANADA INC.
2010 - 2014 CORPORATE PLAN
OPERATING FUNDING STATEMENT
(MILLIONS OF DOLLARS)

	ACTUAL 2008	ACTUAL 2009	2010	2011	BUDGET 2012	2013	2014	% CHANGE 2014 VS 2009
REVENUES								
PASSENGER	282.9	250.3	258.0	267.7	299.6	345.0	394.4	57.6%
OTHER:	<u>16.2</u>	<u>14.6</u>	<u>14.7</u>	<u>17.0</u>	<u>17.9</u>	<u>18.6</u>	<u>19.1</u>	<u>31.2%</u>
TOTAL OPERATING REVENUES	299.1	264.9	270.7	284.6	317.5	363.7	413.6	56.1%
EXPENSES								
OPERATIONS	287.7	295.0	303.9	312.9	328.3	342.1	358.8	21.6%
CUSTOMER	164.1	156.3	157.2	161.5	174.3	187.5	199.2	27.5%
OTHER BRANCHES	61.5	74.9	91.6	93.4	96.5	99.6	103.0	37.5%
TOTAL CASH EXPENSES	513.4	526.1	552.7	567.9	599.1	629.2	661.0	25.6%
OPERATING DEFICIT BEFORE GOVERNMENT SUBSIDY	(214.2)	(261.2)	(282.0)	(283.2)	(281.6)	(265.5)	(247.4)	(1,359.8)
LESS: GOVERNMENT OPERATING FUNDING - REFERENCE LEVEL	214.2	226.3	207.0	175.8	166.4	166.4	166.4	882.0
LESS: SUPPLEMENTARY GOVERNMENT OPERATING FUNDING	-	-	75.0	-	-	-	-	75.0
LESS: USE OF ASSET RENEWAL FUND	-	35.0	-	-	-	-	-	-
OPERATING SURPLUS / (DEFICIT) AFTER GOVERNMENT FUNDING & USE OF ARF	-	-	-	(107.4)	(115.2)	(99.1)	(81.1)	(402.8)

NOTE: May not add due to rounding

TABLE 2

VIA RAIL CANADA INC.
2010 - 2014 CORPORATE PLAN
SUMMARY - TOTAL CAPITAL EXPENDITURES
(MILLIONS OF DOLLARS)

	ACTUAL 2007	ACTUAL 2008	ACTUAL 2009	2010	2011	BUDGET 2012	2013	2014	TOTAL 2010-2014	TOTAL 2007-2014
CAPITAL PROGRAMS										
EQUIPMENT PROJECTS	0.4	7.7	26.3	81.5	91.0	52.9	28.6	-	254.0	288.5
INFRASTRUCTURE PROJECTS	0.2	14.4	57.4	207.8	193.9	14.8	-	-	416.5	488.5
OTHER CAPITAL PROGRAMS	11.7	20.0	33.1	61.1	10.0	7.0	7.0	-	85.1	149.9
TOTAL CAPITAL EXPENDITURES	12.4	42.1	116.8	350.5	294.9	74.7	35.6	-	755.7	927.1
LESS USE OF ASSET RENEWAL FUND (ARF)	-	-	-	(10.0)	-	(7.0)	(7.0)	-	(24.0)	(24.0)
TOTAL GOV'T CAPITAL FUNDING REQUIRED	12.4	42.1	116.8	340.5	294.9	67.7	28.6	-	731.7	903.1

NOTE: May not add due to rounding

TABLE 3 A

VIA RAIL CANADA INC.
2010 - 2014 CORPORATE PLAN
FUNDING REQUIREMENTS AND SOURCES
(MILLIONS OF CURRENT DOLLARS)

CALENDAR YEAR (VIA FISCAL YEAR)

	ACTUAL 2007	ACTUAL 2008	ACTUAL 2009	2010	2011	BUDGET 2012	2013	2014	TOTAL 2010 - 2014	TOTAL 2007-2014
GOVERNMENT FUNDING AVAILABLE										
Operating:										
Total Operating Funding with Stimulus Package	200.6	214.2	226.3	282.0	175.8	166.4	166.4	166.4	882.0	1,523.1
Capital:										
Total Capital Funding with Stimulus Package	12.4	42.1	241.6	320.2	205.9	72.8	8.0	-	606.8	903.0
TOTAL GOV'T FUNDING AVAILABLE	213.0	256.3	467.9	602.2	381.7	239.2	174.4	166.4	1,563.8	2,501.1
VIA FUNDING REQUIREMENTS										
Operating	200.6	214.2	261.2	282.0	283.2	281.6	265.5	247.4	1,359.8	2,035.8
Less Use of Asset Renewal Fund (ARF) - Operating	-	-	(35.0)	-	-	-	-	-	-	(35.0)
Capital	12.4	42.1	116.8	350.5	294.9	74.7	35.6	-	755.7	927.0
Less Use of Asset Renewal Fund (ARF) - Capital	-	-	-	(10.0)	-	(7.0)	(7.0)	-	(24.0)	(24.0)
TOTAL VIA GOV'T FUNDING REQUIRED	213.0	256.3	343.0	622.5	578.1	349.3	294.1	247.4	2,091.4	2,903.8
TOTAL FUNDING SURPLUS/(DEFICIT) BEFORE REPROFILING	-	-	124.9	(20.3)	(196.4)	(110.1)	(119.7)	(81.1)	(527.6)	(402.7)
REPROFILING TO BE REQUESTED *										
Reprofiling of Surplus Operating Funding	-	-	-	-	-	-	-	-	-	-
Reprofiling of Capital Funding *	-	-	(124.9)	20.3	89.0	(5.1)	20.6	-	124.8	-
TOTAL FUNDING SURPLUS/(DEFICIT) AFTER REPROFILING	-	-	0.0	0.0	(107.4)	(115.2)	(99.1)	(81.1)	(402.8)	(402.7)

* Contingent upon approval by TB of TC request through the Annual Reference Level Update (ARLU) process.

NOTE: May not add due to rounding

TABLE 3 B

VIA RAIL CANADA INC.
2010 - 2014 CORPORATE PLAN
FUNDING REQUIREMENTS AND SOURCES
(MILLIONS OF CURRENT DOLLARS)

GOVERNMENT FISCAL YEAR

	ACTUAL 2007/2008	ACTUAL 2008/2009	FORECAST 2009/2010	2010/2011	2011/2012	BUDGET 2012/2013	2013/2014	2014/2015	5 YEAR TOTAL	8 YEAR TOTAL
GOVERNMENT FUNDING AVAILABLE										
Operating:										
Reference Level	212.6	220.9	210.8	196.7	177.9	169.0	169.0	169.0	883.6	1,528.0
Funding Reduction - Gov't Efficiency Tax	-	(1.2)	(1.7)	(2.1)	(2.6)	(2.6)	(2.6)	(2.6)	(12.6)	(15.5)
Operating Reference Level	212.6	219.7	209.1	196.8	175.3	166.4	166.4	166.4	871.1	1,512.5
Funding for MOS - Stimulus Package	-	-	10.0	10.0	-	-	-	-	10.0	20.0
Total Operating Funding with Stimulus Package - 2009 Corp Plan (2010-11 ARLU)	212.6	219.7	219.1	206.8	175.3	166.4	166.4	166.4	881.1	1,532.5
Plus additional Operating funding requested for 2010/11	-	-	-	75.0	-	-	-	-	75.0	75.0
Total Operating funding available	212.6	219.7	219.1	281.8	175.3	166.4	166.4	166.4	956.1	1,607.5
Capital:										
Capital Reference Level	17.9	49.4	142.8	147.1	96.7	59.3	2.8	-	305.9	516.0
Additional Capital Funding - Stimulus Package	-	-	115.0	170.0	102.0	-	-	-	272.0	387.0
Total Capital Funding with Stimulus Package - 2009 Corp Plan (2010-11 ARLU)	17.9	49.4	257.8	317.1	198.7	59.3	2.8	-	577.9	903.0
TOTAL GOV'T FUNDING AVAILABLE - 2009 CORP PLAN (2010-11 ARLU)	230.5	269.1	476.9	598.7	374.0	225.7	169.1	166.4	1,534.0	2,510.5
VIA FUNDING REQUIREMENTS										
Operating	212.6	219.7	254.1	281.8	282.7	281.5	265.5	247.4	1,358.8	2,045.2
Less: Use of Asset Renewal Fund (ARF)	-	-	(35.0)	-	-	-	-	-	-	(35.0)
Total Operating Funding Requirements	212.6	219.7	219.1	281.8	282.7	281.5	265.5	247.4	1,358.8	2,010.2
Capital										
Capital reference level	17.9	49.4	53.2	163.9	200.0	28.6	7.0	-	419.5	540.0
Less: Use of Asset Renewal Fund (ARF)	-	-	-	(10.0)	-	(7.0)	(7.0)	-	(24.0)	(24.0)
Additional Capital Funding - stimulus Package	-	-	115.0	169.0	83.0	-	-	-	272.0	387.0
Total Capital Funding Requirements with Stimulus Package	17.9	49.4	168.2	322.9	283.0	21.6	-	-	667.5	903.0
TOTAL VIA FUNDING REQUIRED	230.5	269.1	387.3	644.8	565.7	303.2	265.5	247.4	2,026.3	2,913.2
Operating Surplus / (Deficit) Before Reprofitting	-	-	-	-	(107.4)	(115.2)	(99.1)	(81.1)	(402.7)	(402.7)
Capital Surplus / (Deficit) Before Reprofitting	-	-	89.6	(45.8)	(84.3)	37.7	2.8	0.0	(89.6)	-
FUNDING SURPLUS / (DEFICIT) BEFORE REPROFITING	-	-	89.6	(45.8)	(191.7)	(77.4)	(96.4)	(81.1)	(492.3)	(402.7)
REPROFITING APPROVED*										
Reprofiling of surplus Operating funding	-	-	-	-	-	-	-	-	-	-
Reprofiling allocated as part of SUPS A	-	-	(26.8)	26.8	-	-	-	-	26.8	-
Reprofiling of Capital Funding*	-	-	(62.8)	0.0	103.3	(37.7)	(2.8)	-	62.8	-
Reprofiling of capital funding - Stimulus package	-	-	-	19.0	(19.0)	-	-	-	0.0	-
Total Capital Funding reprofiling approved	-	-	(89.6)	45.8	84.3	(37.7)	(2.8)	-	89.6	-
FUNDING SURPLUS / (DEFICIT) AFTER REPROFITING	0.0	0.0	0.0	0.0	(107.4)	(115.2)	(99.1)	(81.1)	(402.7)	(402.7)
Gov't Operating funding after Reprofitting	212.6	219.7	219.1	281.8	175.3	166.4	166.4	166.4	956.1	1,607.5
Gov't Capital funding after Reprofitting	17.9	49.4	168.2	322.9	283.0	21.6	0.0	0.0	667.5	903.0
TOTAL GOV'T FUNDING AVAILABLE AFTER REPROFITING	230.5	269.1	387.3	644.8	458.3	188.0	166.4	166.4	1,623.6	2,510.5

* Contingent upon approval by TS of TC request through the Annual Reference Level Update (ARLU) process. Applies to \$510M of capital funding

NOTE: May not add due to rounding

TABLE 4

VIA RAIL CANADA INC.
2010 - 2014 CORPORATE PLAN
KEY PERFORMANCE INDICATORS

	ACTUAL 2008	ACTUAL 2009	BUDGET 2010	2011	2012	2013	2014	% CHANGE 2014 VS 2009
<u>SAFETY</u>								
Employee Lost Time Injuries per 200,000 hours worked	9.6	9.0	8.0	7.8	7.5	7.3	7.1	-21%
Employee Days Lost per 200,000 hours worked	315	316	260	252	245	237	230	-27%
Passenger Injuries per 100,000 psgrs carried	8.0	9.6	8.0	7.8	7.7	7.5	7.4	-23%
<u>ENVIRONMENT</u>								
Fuel Consumption (litres 000)	59,698	57,426	56,370	56,926	60,072	62,814	65,978	15%
GHG Emissions (Kg of CO2 equivalent per 1000 passenger kms)	0.117	0.125	0.119	0.115	0.116	0.116	0.118	-6%
Litres of Fuel Consumed per Train Mile	8.8	8.6	8.4	8.3	8.1	8.0	7.9	-8%
<u>GROWTH</u>								
Total Revenue (\$ millions)	299	265	271	285	318	364	414	56%
Passenger Revenue (\$ millions)	283	250	256	268	300	345	394	58%
Total Passengers (thousands)	4,803	4,229	4,251	4,528	4,760	4,991	5,193	23%
Total Passenger Miles (millions)	950	857	865	918	962	1,004	1,039	21%
Train Miles (thousands)	6,746	6,660	6,696	6,824	7,371	7,883	8,342	25%
Yield (cents per psgr mile)	29.6	29.0	29.4	29.0	31.0	34.2	37.8	30%
Average Psgrs per Train	141	129	129	135	131	127	125	-3%
<u>ENTREPRENEURSHIP</u>								
Total Operating Funding Required (\$ millions)	214.2	261.2	282.0	283.2	281.6	265.5	247.4	-5%
Revenue / Cost Ratio (percent) **	58.4	50.7	49.157	50.3	53.2	58.0	62.8	24%
Capital Expenditures (\$ millions)	42.0	116.8	350.5	294.9	74.7	35.6	-	-100%
Operating Funding Req'd per psgr mile (cents)	23	30	33	31	29	26	24	-22%
Average Load Factor (%)	59	57	57	56	54	53	51	-10%
<u>SERVICE</u>								
Customer Satisfaction (percent exceeding expectations)	37.2	40.6	40.0	40.4	41.2	42.0	43.3	7%
On Time Performance - System (percent)	75	83	85	85	86	87	87	5%
VIA Controlled Train Delays (thousand minutes)	79.1	41.3	40.1	50.3	49.3	48.3	47.4	15%
Equipment Availability (% of active fleet)								
- Locomotives	84	82	82	74	79	87	87	6%
- Cars	91	88	88	83	87	89	91	3%
<u>PEOPLE</u>								
Number of Employees at Year End	3,109	3,053	3,074	3,074	3,194	3,344	3,374	11%

** Excludes Restructuring and Non-Cash Expenses

Pro-forma Financial Statements

Table 5

Statement of operations, Comprehensive Income and retained earnings (deficit)*Year ended December 31*

	2008	2009	2010	2011	2012	2013	2014
<i>(in millions)</i>	Actual	Actual					
Revenues							
Passenger	282.9	250.3	256.0	267.7	299.6	345.0	394.4
Other	13.6	14.8	14.7	16.9	17.9	18.7	19.2
	<u>296.5</u>	<u>265.1</u>	<u>270.7</u>	<u>284.6</u>	<u>317.5</u>	<u>363.7</u>	<u>413.6</u>
Expenses							
Train Operations and Maintenance of Equipment	274.9	282.6	303.9	312.9	328.3	342.1	358.8
Customer Services and Marketing	152.9	145.8	157.2	161.5	174.3	187.5	199.2
Finance, Administration and other support services	106.0	61.6	91.7	93.5	97.3	99.7	103.2
Employee future benefits	(35.0)	(1.1)	7.0	7.0	7.0	7.0	7.0
Amortization of property, plant and equipment and intangible assets	54.6	60.1	58.0	75.9	89.3	91.7	90.4
	<u>553.4</u>	<u>549.0</u>	<u>617.8</u>	<u>650.8</u>	<u>696.2</u>	<u>728.0</u>	<u>758.6</u>
Operating loss before funding from the Government of Canada and corporate taxes	<u>256.9</u>	<u>283.9</u>	<u>347.1</u>	<u>366.2</u>	<u>378.7</u>	<u>364.3</u>	<u>345.0</u>
Operating funding from the Government of Canada	214.2	226.3	282.0	175.8	166.4	166.4	166.4
Amortization of deferred capital funding	50.7	56.1	53.9	71.1	84.5	86.4	84.6
Income (loss) before corporate taxes	8.0	(1.5)	(11.2)	(119.3)	(127.8)	(111.5)	(94.0)
Corporate tax expense (recovery)	1.9	(4.0)	(1.4)	(1.4)	(1.4)	(1.4)	(1.4)
Net income (loss) and comprehensive income (loss) for the year	<u>6.1</u>	<u>2.5</u>	<u>(9.8)</u>	<u>(117.9)</u>	<u>(126.4)</u>	<u>(110.1)</u>	<u>(92.6)</u>
Retained earnings (deficit), beginning of year	209.9	216.0	218.5	208.7	90.8	(35.6)	(145.7)
Retained earnings (deficit), end of year	<u>216.0</u>	<u>218.5</u>	<u>208.7</u>	<u>90.8</u>	<u>(35.6)</u>	<u>(145.7)</u>	<u>(238.3)</u>

Reconciliation of Net income (loss) for the year to Government Funding Basis	2008	2009	2010	2011	2012	2013	2014
<i>(in millions)</i>							
Net income (loss) and comprehensive income (loss) for the year	6.1	2.5	(9.8)	(117.9)	(126.4)	(110.1)	(92.6)
Items not requiring (not providing) operating funds:							
Amortization and losses on write-off and disposal of capital assets	54.6	60.1	58.0	75.9	89.3	91.7	90.4
Amortization of deferred capital funding	(50.7)	(56.1)	(53.9)	(71.1)	(84.5)	(86.4)	(84.6)
Employee future benefits	(44.8)	(21.2)	7.0	7.0	7.0	7.0	7.0
Unrealized gain on derivative financial instruments	27.0	(18.1)					
Previous years' lease expenses funded in the current year	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)
Current year property expenses funded in a future year	0.0	0.8	0.0	0.0	0.0	0.0	0.0
Future corporate taxes	2.2	(3.3)	(1.8)	(1.8)	(1.8)	(1.8)	(1.8)
Adjustment for accrued compensation	2.0	0.7	0.7	0.7	1.4	0.7	0.7
Change in fair value of financial instrument	3.9	(0.2)					
Payment of prior years' reorganization charges	(0.2)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)
	<u>(6.1)</u>	<u>(37.5)</u>	<u>9.8</u>	<u>10.5</u>	<u>11.2</u>	<u>11.0</u>	<u>11.5</u>
Operating funding surplus (deficit) for the year	<u>0.0</u>	<u>(35.0)</u>	<u>0.0</u>	<u>(107.4)</u>	<u>(115.2)</u>	<u>(99.1)</u>	<u>(81.1)</u>

*Excluding consolidation of Keewatin Railway Company**Pro-forma Financial Statements prepared in accordance with Canadian generally accepted accounting principles*

Pro-forma Financial Statements

Table 6

Statement of cash flows

Year ended December 31

	2008	2009	2010	2011	2012	2013	2014
(in millions)	Actual	Actual					
Operating activities							
Net income (loss) and comprehensive income (loss) for the year	6.1	2.5	(9.8)	(117.9)	(126.4)	(110.1)	(92.6)
Adjustments to determine net cash from (used in) operating activities:							
Amortization of property, plant and equipment and intangible assets	53.6	52.3	58.0	75.9	89.3	91.7	90.4
Losses (gains) on write-down and disposal of property, plant and equipment and intangible assets	1.0	7.8	0.0	0.0	0.0	0.0	0.0
Amortization of investment tax credits	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)	(0.1)
Amortization of deferred capital funding	(50.7)	(56.1)	(53.9)	(71.1)	(84.5)	(86.4)	(84.6)
Future corporate taxes	0.0	(3.3)	(1.8)	(1.8)	(1.8)	(1.8)	(1.8)
Change in fair value of financial instrument	2.6	(0.2)					
Unrealized net loss (gains) on derivative financial instruments	27.0	(18.1)					
Net changes in non-cash working capital items	2.7	(7.9)	(25.6)	108.6	117.0	100.2	81.8
Change in accrued benefit asset	(45.9)	(22.3)	6.0	6.0	6.0	6.0	6.0
Change in accrued benefit liability	1.0	1.0	1.0	0.9	0.9	1.0	1.0
Change in other long-term liabilities	1.8	(1.1)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)
	(1.1)	(45.7)	(26.5)	0.2	0.1	0.2	(0.0)
Financing activities							
Capital funding received from the Government of Canada	42.6	110.3	340.5	294.9	67.7	28.6	0.0
Net cash provided by financing activities	42.6	110.3	340.5	294.9	67.7	28.6	0.0
Investment activities							
Acquisition of investments in the asset renewal fund	(415.8)	(359.7)	0.0	(0.2)	0.0	0.0	0.0
Proceeds from sale and maturity of investments in the asset renewal fund	413.1	386.2	34.9	0.0	6.9	6.8	0.0
Disbursement for property, plant and equipment and intangible assets	(34.6)	(95.7)	(350.5)	(294.9)	(74.7)	(35.6)	0.0
Proceeds from disposal of property, plant and equipment and intangible assets	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Net cash used in investing activities	(37.2)	(69.2)	(315.6)	(295.1)	(67.8)	(28.8)	0.0
Cash and cash equivalents							
Increase (decrease) during the year	4.3	(4.6)	(1.6)	0.0	0.0	0.0	0.0
Balance, beginning of year	4.9	9.2	4.6	3.0	3.0	3.0	3.0
Balance, end of year	9.2	4.6	3.0	3.0	3.0	3.0	3.0

Excluding consolidation of Keewatin Railway Company

Pro-forma Financial Statements prepared in accordance with Canadian generally accepted accounting principles

Pro-forma Financial Statements

Table 7

Balance sheet*As at December 31*

	2008	2009	2010	2011	2012	2013	2014
<i>(in millions)</i>	Actual	Actual					
Current assets							
Cash and cash equivalents	9.2	4.6	3.0	3.0	3.0	3.0	3.0
Accounts receivable, trade prepaids and other	9.1	18.0	11.3	9.6	9.9	10.6	12.1
Receivable from the Government of Canada	0.0	5.2	50.0	0.0	0.0	0.0	0.0
Derivative financial instruments	5.1	1.5	1.5	1.5	1.5	1.5	1.5
Materials	22.5	24.6	25.6	26.6	27.6	28.6	29.6
Asset renewal fund	17.9	25.3	0.0	7.0	6.8	0.0	0.0
Future corporate tax assets	6.2	2.8	2.8	2.8	2.8	2.8	2.8
	<u>70.0</u>	<u>82.0</u>	<u>94.2</u>	<u>50.5</u>	<u>51.6</u>	<u>46.3</u>	<u>49.0</u>
Non-current assets							
Property, plant and equipment, & Intangible assets	468.1	524.7	817.2	1,036.2	1,021.6	965.5	875.1
Asset renewal fund	56.7	23.1	13.5	6.7	0.0	0.0	0.0
Accrued benefit asset	332.5	354.8	348.8	342.8	336.8	330.8	324.8
Derivative financial instruments	5.0	1.6	1.6	1.6	1.6	1.6	1.6
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	<u>862.3</u>	<u>904.2</u>	<u>1,181.1</u>	<u>1,387.3</u>	<u>1,360.0</u>	<u>1,297.9</u>	<u>1,201.5</u>
	<u>932.3</u>	<u>986.2</u>	<u>1,275.3</u>	<u>1,437.8</u>	<u>1,411.6</u>	<u>1,344.4</u>	<u>1,250.5</u>
Current liabilities							
Accounts payable and accrued liabilities	107.8	130.4	143.8	200.2	316.5	416.1	500.1
Derivative financial instruments	20.7	6.7	6.7	6.7	6.7	6.7	6.7
Deferred revenue	11.6	12.0	12.1	13.6	15.6	17.9	18.2
	<u>140.1</u>	<u>149.1</u>	<u>162.6</u>	<u>220.5</u>	<u>338.8</u>	<u>440.7</u>	<u>525.0</u>
Non-current liabilities							
Accrued benefit liability	26.2	27.1	28.1	29.0	29.9	30.9	31.9
Future corporate taxes	47.2	40.5	38.7	36.9	35.1	33.3	31.5
Derivative financial instruments	11.4	0.4	0.4	0.4	0.4	0.4	0.4
Deferred investment tax credits	1.6	1.3	1.0	0.7	0.4	0.1	0.0
Other non-current liabilities	2.0	0.9	0.8	0.7	0.6	0.5	0.4
	<u>88.4</u>	<u>70.2</u>	<u>69.0</u>	<u>67.7</u>	<u>66.4</u>	<u>65.2</u>	<u>64.2</u>
Deferred capital funding	<u>473.5</u>	<u>533.1</u>	<u>819.7</u>	<u>1,043.5</u>	<u>1,026.7</u>	<u>968.9</u>	<u>884.3</u>
Shareholder's equity (deficiency)							
Share capital	9.3	9.3	9.3	9.3	9.3	9.3	9.3
Contributed surplus	5.0	6.0	6.0	6.0	6.0	6.0	6.0
Retained earnings (deficit)	216.0	218.5	208.7	90.8	(35.6)	(145.7)	(238.3)
	<u>230.3</u>	<u>233.8</u>	<u>224.0</u>	<u>106.1</u>	<u>(20.3)</u>	<u>(130.4)</u>	<u>(223.0)</u>
	<u>932.3</u>	<u>986.2</u>	<u>1,275.3</u>	<u>1,437.8</u>	<u>1,411.6</u>	<u>1,344.4</u>	<u>1,250.5</u>

*Excluding consolidation of Keewatin Railway Company**Pro-forma Financial Statements prepared in accordance with Canadian generally accepted accounting principles*